

## **EXHIBIT AA**



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## **Independent Auditors' Report to the Shareholders of Palestine Investment Fund Company**

We have audited the accompanying consolidated financial statements of Palestine Investment Fund Company (PIF), which comprise the consolidated balance sheet as at December 31, 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of Palestine Commercial Services Company (PCSC), Hanadi Tower Company and Bulk Express Company as at December 31, 2006 were audited by other auditors' whose unqualified reports have been furnished to us. Total assets and revenues of these companies represent 4.5% and 8.7% of the total assets and revenues of the consolidated financial statements of the PIF as at December 31, 2006. Our opinion, as far as it relates to the data included in the financial statements of Palestine Commercial Services Company, Hanadi Tower and Bulk Express, is based solely on the reports of the other auditors.

### **Management's Responsibility for the Financial Statements**

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained and the reports of the other auditors is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, based on our audit and based on the reports issued by the other auditors, the consolidated financial statements give a true and fair view of the financial position of Palestine Investment Fund Company as at December 31, 2006 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, as depicted in note (10) to the accompanying financial statements, the available for sale investments include mortgaged securities against credit facilities granted to the shareholder, the fair value of these securities as at December 31, 2006 amounted to U.S. \$ 381,695,861.

A handwritten signature in black ink that reads 'Ernst + Young'.

Ramallah, Palestine  
April 12, 2007

## Palestine Investment Fund Company

**Consolidated Balance Sheet**

As at December 31, 2006

	Note	2006 U.S. \$	2005 U.S. \$
<b><u>Assets</u></b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	39,767,842	43,126,389
Investment properties	5	9,700,630	9,700,630
Projects in progress	6	13,051,057	11,738,929
Goodwill	7	28,680,176	28,680,176
Investments in associates	8	316,211	19,133,718
Loans	9	30,705,475	31,118,995
Available for sale investments	10	691,824,352	872,664,809
		<u>814,045,743</u>	<u>1,016,163,646</u>
<b>Current assets</b>			
Accounts receivable	11	39,876,782	48,928,489
Other current assets	12	13,692,760	17,935,377
Cash and cash equivalents	13	24,508,565	53,166,375
		<u>78,078,107</u>	<u>120,030,241</u>
<b>Total Assets</b>		<u>892,123,850</u>	<u>1,136,193,887</u>
<b><u>Equity and Liabilities</u></b>			
<b>Equity attribution to Equity Holders</b>			
Paid-in share capital	14	574,000,000	574,000,000
Shareholders current account		(446,047,696)	(314,841,410)
Advances on capital increase	15	798,536	-
Statutory reserve	17	32,406,663	22,996,535
Proposed cash dividends	18	50,000,000	60,000,000
Foreign currency translations		3,492,243	483,905
Cumulative changes in fair value	16	531,110,404	673,166,567
Retained earnings		86,659,970	51,968,814
		<u>832,420,120</u>	<u>1,067,774,411</u>
<b>Minority interests</b>		<u>247,560</u>	<u>197,805</u>
<b>Total Equity</b>		<u>832,667,680</u>	<u>1,067,972,216</u>
<b>Non-current Liabilities</b>			
Long-term interest-bearing loans and borrowings	19	7,272,728	16,000,000
Finance lease obligations	21	12,027,719	12,674,601
		<u>19,300,447</u>	<u>28,674,601</u>
<b>Current Liabilities</b>			
Short-term interest-bearing loans and borrowings	20	7,301,399	4,001,684
Accounts payable	22	17,327,825	20,288,313
Provisions and other current liabilities	23	14,084,100	13,813,242
Short term finance lease obligations	21	1,442,399	1,443,831
		<u>40,155,723</u>	<u>39,547,070</u>
<b>Total Liabilities</b>		<u>59,456,170</u>	<u>68,221,671</u>
<b>Total Equity and Liabilities</b>		<u>892,123,850</u>	<u>1,136,193,887</u>

The attached notes 1 to 36 form part of these consolidated financial statements.

## Palestine Investment Fund Company

**Consolidated Income Statement**

For the Year Ended December 31, 2006

	Note	2006 U.S. \$	2005 U.S. \$
<b><u>Revenues</u></b>			
Operating income	24	106,104,032	114,047,495
Gain from investment portfolio	25	133,454,612	241,677,698
Finance revenues	26	2,619,760	3,583,092
Share of loss of associates		(3,780,091)	(503,661)
Gain from selling an aircraft		-	1,753,117
Other revenues, net		5,776,935	66,535
		<u>244,175,248</u>	<u>360,624,276</u>
<b><u>Expenses</u></b>			
Operating expenses	24	(91,996,772)	(100,142,295)
General and administrative expenses	27	(7,567,369)	(12,921,312)
Depreciation and amortization		(646,975)	(791,631)
Finance costs		(1,228,298)	(1,953,186)
Decline in fair value of available for sale investments		(15,597,669)	(125,768,068)
Loss from disposal of investment in a subsidiary	28	(1,791,902)	(4,240,805)
Foreign exchange differences		(2,472,653)	(1,404,503)
Impairment of Projects in progress		(2,062,499)	(10,225,000)
Provision for doubtful accounts and advances		(26,660,072)	(13,879,133)
Disposal of goodwill of sold associates		-	(9,907,205)
Impairment of goodwill		-	(401,237)
Provision for litigations and other contingencies		-	(3,758,134)
<b>Profit for the year</b>		<u>94,151,039</u>	<u>75,231,767</u>
Attributable to:			
Equity holders of PIF		94,101,284	75,157,208
Minority interests		49,755	74,559
<b>Profit for the year</b>		<u>94,151,039</u>	<u>75,231,767</u>
Basic and diluted earnings per share	29	<u>0.16</u>	<u>0.13</u>

The attached notes 1 to 36 form part of these consolidated financial statements.

**Palestine Investment Fund Company**

**Consolidated Statement of Changes in Equity**  
**For the Year Ended December 31, 2006**

	Equity Attributable to equity holders									
	Paid-in share capital U.S. \$	Shareholders current account U.S. \$	Advances on capital increase U.S. \$	Statutory reserve U.S. \$	Proposed Cash dividends U.S. \$	Foreign currency translations U.S. \$	Cumulative changes in fair value U.S. \$	Retained earnings U.S. \$	Minority interests U.S. \$	Total equity U.S. \$
2006										
At January 1, 2006	574,000,000	(314,841,410)	-	22,996,535	60,000,000	483,905	673,166,567	51,968,814	197,805	1,067,972,216
Cumulative changes in fair value	-	-	-	-	-	-	(142,056,163)	-	-	(142,056,163)
Foreign currency translation	-	-	-	-	-	3,008,338	-	-	-	3,008,338
Total income and expenses for the year recognized directly in equity	-	-	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	3,008,338	(142,056,163)	-	-	(139,047,825)
Total income and expenses for the year	-	-	-	-	-	-	-	94,101,284	49,755	94,151,039
Advances on capital increase	-	-	798,536	-	-	3,008,338	(142,056,163)	94,101,284	49,755	(44,896,786)
Transfers to statutory reserve	-	-	-	-	-	-	-	-	-	-
Transfers to the shareholder	-	(191,206,286)	-	9,410,128	-	-	-	(9,410,128)	-	-
Cash dividends	-	60,000,000	-	-	(60,000,000)	-	-	-	-	(191,206,286)
Proposed cash dividends	-	-	-	-	50,000,000	-	-	(50,000,000)	-	-
At December 31, 2006	574,000,000	(446,047,696)	798,536	32,406,663	50,000,000	3,492,243	531,110,404	86,659,970	247,560	832,667,680
2005										
At January 1, 2005	574,000,000	(9,803,635)	-	15,480,814	60,000,000	1,391,202	260,642,564	44,327,327	123,246	946,161,518
Cumulative changes in fair value	-	-	-	-	-	-	412,524,003	-	-	412,524,003
Foreign currency translation	-	-	-	-	-	(907,297)	-	-	-	(907,297)
Total income and expenses for the year recognized directly in equity	-	-	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	(907,297)	412,524,003	-	-	411,616,706
Total income and expenses for the year	-	-	-	-	-	-	-	75,157,208	74,559	75,231,767
Transfers to statutory reserve	-	-	-	-	-	(907,297)	412,524,003	75,157,208	74,559	486,848,473
Transfers to the shareholder	-	(305,037,775)	-	7,515,721	-	-	-	(7,515,721)	-	(305,037,775)
Cash dividends	-	-	-	-	(60,000,000)	-	-	-	-	(60,000,000)
Proposed cash dividends	-	-	-	-	60,000,000	-	-	(60,000,000)	-	-
At December 31, 2005	574,000,000	(314,841,410)	-	22,996,535	60,000,000	483,905	673,166,567	51,968,814	197,805	1,067,972,216

The attached notes 1 to 36 form part of these consolidated financial statements.

Palestine Investment Fund Company

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2006

	2006	2005
	U.S. \$	U.S. \$
<b><u>Operating activities</u></b>		
Profit for the year	94,151,039	75,231,767
<b>Adjustments:</b>		
Net finance costs	(1,391,462)	(1,629,903)
Share of loss of associates	3,780,091	503,661
Gain from investment portfolio	(133,454,612)	(241,677,698)
Gain from sale of property, plant and equipment	-	(1,753,117)
Non cash expenditures	60,651,708	156,404,778
<b>Change in working capital</b>		
Accounts receivable	(13,609,829)	19,875,624
Other current assets	4,242,617	21,837,979
Accounts payable	(2,960,488)	5,950,215
Provisions and other current liabilities	270,858	772,284
Finance costs paid	(1,228,298)	(364,134)
<b>Net cash flows from operating activities</b>	<b>10,451,624</b>	<b>35,151,456</b>
<b><u>Investing activities</u></b>		
Purchase of property, plant and equipment	(767,563)	(2,059,711)
Proceeds from sale of property, plant and equipment	52,518	8,936,984
Disposal of an associate assets	-	2,536,433
Purchase of investment properties	-	(354,160)
Purchases of available for sale investments	(2,839,380)	(166,770,484)
Sales of available for sale investments	151,590,677	124,492,240
Projects in progress	(3,374,627)	(1,416,001)
Loans	(739,785)	(2,119,855)
Proceeds from loans	325,000	26,514,654
Proceeds from sale of investments in associates	-	340,000,000
Dividends received	11,292,863	5,595,270
Interest received	248,065	664,097
<b>Net cash flows from investing activities</b>	<b>155,787,768</b>	<b>336,019,467</b>
<b><u>Financing activities</u></b>		
Cash dividends paid	(60,000,000)	(60,000,000)
Payments of finance lease obligations	(648,314)	(5,224,660)
Repayments of interest-bearing loans and borrowings	(5,427,558)	5,919,050
Shareholders withdrawals	(131,206,286)	(264,315,872)
<b>Net cash flows used in financing activities</b>	<b>(197,282,158)</b>	<b>(323,621,482)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(31,042,766)</b>	<b>47,549,441</b>
Cash and cash equivalents, beginning of year	53,166,375	6,524,231
Foreign currency translations difference	2,384,956	(907,297)
<b>Cash and cash equivalents, end of year</b>	<b>24,508,565</b>	<b>53,166,375</b>

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The attached notes 1 to 36 form part of these consolidated financial statements.